

PUBLIC FINANCE COMMITTEE

Report and Opinion

Rapporteur: Dep. Maria Angelica Rangel da Cruz dos Reis (FRETILIN)

Draft Law No. 41 / III (4th). - First Amendment to Law No. 1/2016 of 14 January, approving the State Budget for 2016

Approved unanimously at a meeting of Committee C on 11 July 2016

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I. INTRODUCTION AND LEGAL FRAMEWORK OF THE PROPOSAL

(i) Admission of Proposal

The Draft Law (PPL) No. 41 / III (4 $\frac{al}{}$ - First Amendment to Law No. 1/2016 of 14 January, approving the State Budget for 2016 was presented by the Government to Parliament national on June 27, 2016, pursuant to point c) of paragraph 1 of Article 97 and paragraph 1 of Article 145, all of the Constitution of the Democratic Republic of Timor-Leste (CRDTL) and Article 34 of Law No. 13/2009 of 21 October.

The Government has, in accordance with the constitutional and legal provisions mentioned, the power to propose the legislative initiative in question and the National Parliament has exclusive power to approve (Article 95 paragraph 3, letter c) of the Constitution).

The bill was accepted by His Excellency the President of the National Parliament (NP) on July 4, 2016 and on that date was announced in Plenary and given its low to the Infrastructure Committee (Committee E) for the preparation of opinion sector, and the Public Finance Committee (Committee C) for reporting and reasoned opinion as provided for in Article 163 of the Rules of Procedure of Parliament (RPN).

The bill was accompanied by letter from the Prime Minister, by requesting the scheduling of the debate with the urgency and possible priority. The Government also presented a document signed by the Prime Minister on the justification for the higher transfer the Estimated Sustainable Income.

On July 5, 2016, the Government presented a Factual Findings Report related to the estimates of the reduction in Estimated Sustainable Income, under Article 9 of Law No. 9/2005 of 3 August (Law Petroleum Fund) produced by external audit.

Under Article 92 of the Constitution and Article 170 of the Rules of Procedure of the National Parliament, the National Parliament approved the Resolution No. 6/2016 on the discussion and voting in the general and specific of the first amendment to the general budget state to 2016, by which it was determined the period of seven days for reporting and opinion by the Public Finance Committee, and set the duration of the discussion and voting in the general and specific in three days.

(ii) Previous Question and Rapporteur designation

The Public Finance Committee is considered competent in the matter, to enjoy admitted legislative initiative, in formal terms and in relation to their material content.

Rapporteur was assigned to Hon. Mrs Maria Angelica Rangel da Cruz dos Reis, of the FRETILIN Parliamentary Bench.

In preparing this Report observed, mutatis mutandis, the provisions of Article 34 of the Rules.

(iii) Public Hearings

Under procedural rules, joint public hearings were held on 5 and 6 July 2016, in which were heard Excellencies the President of the Advisory Board of the Petroleum Fund (CCFP), the

Governor of Timor-Leste Central Bank (CBTL) and the members of governments that integrate the Board of Directors of the Infrastructure Fund, Their Excellencies the Minister of Planning and Strategic Investment, the Minister of Public Works, Transport and Communications and the Minister of Finance.

On 5 July they were jointly heard the Central Bank of Timor-Leste (CBTL) and the Advisory Council of the Petroleum Fund (CCFP), and the Chairman of the CC submitted to the Committee C written opinion on the additional financing needs of public expenditure in 2016 from the Petroleum Fund and its impact on the future wealth of the Fund.

CBTL also had the opportunity to convey to the Honourable Members to its position on the proposed budget amendment in question, relevant data on the FP and bank balances deposited in the bank accounts of the three funds, which are then summarized.:

The CBTL raised two issues considered most relevant in relation to LPP, specifically, the immediate negative impacts and long-term balance of the Petroleum Fund, caused by additional funding of infrastructure at the expense of extraordinary surveys of FP programs, the need for improvement evaluation and coordination between the Treasury cash requirements and programmed withdrawals FP throughout the year.

The Governor of CBTL also reported that up to 30 June 2016 the PF return had reached \$ 500 million and in the first quarter had been transferred from FP to the state budget 200 million dollars which totaled over 240 million in the second quarter. The new liquidity requirements of the Ministry of Finance of over 391 million dollars will force the resale of financial assets. Finally he reported that later in the month of December 2015 there were boxed in IF 16.8 million dollars in TLCF 301 million and HCDF 5.2 million dollars.

On 6 July, the Minister of Planning and Strategic Investment, Chairman of the Infrastructure Fund Management, stated Messrs. Deputies on the additional financing needs of ongoing infrastructure projects and established the urgency of the Government to settle non-financial debt capital and answered the questions put to him by Messrs. Deputies.

are pending clarifications to supplement the information provided by the Minister on an issue that the Committee C considers most relevant and it has to do with the existence or not of a contractual clause in the Public-Private Partnership contract for the construction and management of the new port of Tibar, to ensure the company awarded one annual minimum income guarantee, regardless of the movement of ships and containers in the new port or on safeguarding the possibility of future contractual review, due to the movement of evolution that will occur in the first years of operation. It will be important in discussion headquarters generally in plenary to insist on a request for a clearer answer on this question.

(iv) Legal Framework

Under the Constitution of the Democratic Republic of Timor-Leste, it is for the Parliament, in addition to the primary functions of representation and legislative, monitoring and overseeing the executive activity.

This parliamentary function translates into power and duty to assist the Members and has, of course, essentially political in nature, but is particularly relevant with regard to the use of public funds.

Enjoying the PPL No. 41 / III ($4^{\frac{a}{2}}$ in the light of the requirements to be complied with to its admissibility, the legislative initiative takes the form of the draft law (PPL), is signed by the replacement of the Prime Minister and the Minister of Finance, and contains the reference to its approval by the Council of Ministers on June 22, 2016, following the form of bills, pursuant to $^{\text{paragraphs}}$ 1 and 3 of article 11 of law No. 1/2002 of 29 June (Law Publication of Acts) and complying with the provisions of articles 90, 91, paragraph 1 and 96, paragraph 2 of the National Parliament Rules of Procedure (RPN) .

The initiative defines concretely the changes to be made in the legislative framework is written in Portuguese, in the form of articles, and has a title that adequately reflects its main object, being thus respected the rules contained in Articles 92, paragraph o 1 and 98, paragraph 1 of RPN.

The bill expressly states, in the title, it is the first amendment to Law No. 1/2016 of 14 January, approving the State Budget for 2016 in accordance with Article 18 Publication of Acts of Law.

The bill contains a preamble and is accompanied by explanatory memorandum, fulfilling the provisions of paragraph d) of paragraph 1 and paragraph 2 of Article 98 of the RPN and paragraph 1 of Article 11 o Publication of the Acts of Law.

In terms of substantive law, the budget system, as well as framed by the Constitution, is also up-regulated by Law No. 13/2009 of 21 October - Budget and Financial Management, amended by Law No. 9/2011, August 17 and Law No. 3/2013 of 11 September.

How does the Law No. 13/2009 of 21 October in Article 34, the Government may propose amendments to the State Budget in force when the circumstances so warrant.

Under the explanatory memorandum, the bill under consideration proposes "an increase in development capital allocations to finance vital infrastructure projects that are moving faster than expected."

It is also referred to "the total budget allocation for the Infrastructure Fund and the adjustment will fund the projects of the Port of Bay Tibar, the Suai Supply Base, the flow in Dili and other similar investments that will stimulate economic growth, leading to higher domestic revenues and lower government spending in the long term. "

With regard to the bill of structure, Article 34, paragraph 2 states that the structure and content of the budget amendment of laws comply with the provisions of Chapter I (content and structure) and II (Budget Law state) of title IV, whose rules shall apply mutatis mutandis.

Under Article 24, the State Budget Law contains the articles and the budget tables, which are approved attached. According to Article 29, the bill has a structure and identical content to the law.

The bill in question indicates in Article 1 Articles (4 and 7) and the budget tables (Appendix I - estimated revenue, Annex II - appropriations of the State Budget 2016; Annex III - Autonomous Services and Funds) of the State Budget in 2016 suffering change.

The amended budget tables set out in Annexes I to III of the bill, which are duly numbered and referenced in the text of the proposal as part of the law, pursuant to Article 10 of Order No. 1 / SECM / 2007 on Legistics the rules in the preparation of normative acts by the IV Constitutional Government.

The Committee considers thus find themselves met the formal requirements for the submission of bills, as provided by law and the Rules.

(v) Content of the proposed law

The bill consists of 3 articles and 4 annexes, as follows:

Article 1 - Amendment to Law No. 1/2016, of January 14

It is proposed to amend:

- Annex I to the 2016 state budget in the part to finance expenditure using the Petroleum Fund;
- Annex II to the 2016 state budget in the part of the Infrastructure Fund;
- Annex III of the State Budget 2016 in the part relating to the Infrastructure Fund.
- Article 4 of the 2016 State Budget for the authorized ceiling for financing the state budget;
- Article 7 on supplementary rules of budget execution.

Article 2 - Republication

Determines the republication of the State Budget in 2016 with the current wording of the changes resulting.

Article 3 - Entry into force

Determines the entry into force of the law on the day following its publication in the Official Gazette.

Annex I - contains the amendment to Annex I (Estimates of revenue) of Act No. 1/2016 of 14 January.

Annex II - contains the amendment to Annex II (OGE Appropriations 2016) of Law No. 1/2016 of 14 January.

Annex III - contains the amendment to Annex III (Autonomous Funds and Services) of Act No. 1/2016 of 14 January.

Annex IV - contains the state budget in 2016 republished with the current wording.

The table below contains the proposed changes.

	OGE 2016	PROPOSED LAW N. º 41 / III	OBSERVATIONS
Annex	Transfers from the Petroleum Fund	Transfers from the Petroleum Fund	The Transfers from the Petroleum Fund in 2016 above the Estimated Sustainable Income goes from 739 million to 1,129.7 million.
I	- 1283.8 (million)	- 1674.5 (million)	

	Fund of Infrastructure, including	Fund of Infrastructure, including			
Annex	expenditure financed by borrowing (independent fund with Own Revenue)	expenditure financed by borrowing (independent fund with Own Revenue)	The appropriation for the Infrastructure Fund, goes		
	Category Development Capital - 392.960 (million)	Category Development Capital - 783.665 (million)	from 393.768 to 784.473 million dollars.		
II	Total expenses - 393.768 (million)	This change is reflected in			
	Total state budget expenditure including loans	Total state budget expenditure including loans	the total amount of appropriations passing of 1,562,233,000 to		
			1,952,938,000.		
	Total expenses - 1,562,233 (million)	Total expenses - 1,952,938 (million)			
	Infrastructure Fund	Infrastructure Fund	The appropriation for the Infrastructure Fund, goes from 393.768 to 784.473		
Annex	Development capital - 392.960 (million)	Development capital - 783.665 (million)	million dollars.		
III	Total - 393.768 (million)	Total - 393.768 (million)	This change is reflected in the total of autonomous		
	Total autonomous funds and services - 434.626 (million)	Total autonomous funds and services - 825.332 (million)	funds and services that goes from 434,626,000 to 825,332,000 .		
	Article 4	Article 4			
	Authorized limit for OGE funding	Authorized limit for OGE funding			
Article 4	Under the terms and for the purposes of Article 7 of Law No. 9/2005 of 3 August, the Petroleum Fund Law, the wording that amended by Law No 12/2011 of 28 September, the amount transferred from the Petroleum Fund for 2016 does not exceed \$1,283.8 million, being the transfer of \$544.8 million made after compliance with the provisions of Article 8 and the transfer of \$739 million made after completion of a), b), c) and d) of Article 9 of Law no. 9/2005 of 3 August.	Under the terms and for the purposes of Article 7 of Law No. 9/2005 of 3 August, the Petroleum Fund Law, the wording that amended by Law No 12/2011 of 28 September, the amount transferred from the Petroleum Fund for 2016 does not exceed \$1,674.5 million, being the transfer of \$544.8 million made after compliance with the provisions of Article 8 and the transfer of \$1.129,7 million made after completion of a), b), c) and d) of article 9 of the Petroleum Fund Law.	The transfer from the Petroleum Fund in 2016 above the Estimated Sustainable Income goes from 739 million to 1,129.7 million.		
	Article 7	Article 7	Will be added two new		
	Additional rules of budget execution	Additional rules of budget execution	numbers, number 8 and 9.		
	 The execution ction or ç amental by O rg ã them and by serve ç e aut funds O 	1. () 2. ()	Number 8 provides that the Government uses deposits of escrow nature.		
	Nomos shall be performed using the Inform system will tico Gest ã the Financial, with	3. () 4. ()	Number 9 allows the government to suspend		
1	ction exce the procedures on	5. ()			

- safety ç the national, and Regi ã the Special Administrative Oecussi and the Special Zone of Social Economy of Oecussi Ambeno and Markets Act ú ro.
- In 2016, the monitors ction ction of execution or ç amental by the National Parliament focusing mainly on all recurring expenses.
- The contracts ction op ú
 Republic by direct adjustment
 is only allowed every O rg ã
 the AT is 10% of the
 respective endows gs or ç
 amentais 2016 without preju
 e zo of observ â INSTANCE of
 legal rules on its admissibility .
- 4. Paragraph ú previous mere didn't apply to supplies in â scope of Dota gs to All Government to respect the quest ns of safety ç national, to the Municipal Integrated Development Planning and the Regi ã the Special Administrative Oecussi and Special Zone of Social Market Economy of Oecussi and ú ro Ata.
- 5. The National Parliament shall hold a quarterly debate on the execution ction or ç amental of each ministry's river, state secretariat, O rg ã the aut O nome without revenue pr Pippen and serve ç oe background aut O nome, with the presence ç to the respective members of the Government and leaders m will next few.
- When the Treasury's account balance is less than 200 million õ es d o homes, the Government may seek the transfer is NCIA Petrol Fund í fero above SUSTAINABLE Income ble Estimate, previously informing the National Parliament.

- 6. (...)
- 7. (...)
- 8. In â scope of partnerships P ú public-private, concluded under Article 6 of this law and for the purposes of execution ction of concession contracts ã o, the Government is authorized to make dep O ments escrow nature in accordance with the regulations by the government.
- In â scope of contracts whose cia will efficienc is suspended, the Government is authorized to suspend its execution guarantee ction at it are met the gs condition for full efficienc will cia of the agreements.
- 10. The rules of execution ction or amental ç app ble to O rg the ã ç and serve them and aut funds O Nomos s ã the Government set out in the law on the execution ction or ç amental.

implementation of guarantees under contracts.

The current number 8 becomes number 10.

7.	Requests for conting reserve use is NCIA must be justified under paragraph. 3 of Article 7 and Article 37 of Law n. The 13/2009 of 21 October on Or ç amento and Gest ã the Financial, amended by Law no. 9/2011 the of 17 August and n. The 3/2013 of 11 September, and must contain the described ction detailed the activities to be carried out.	
8.	The rules of execution ction or amental ç app ble to O rg the ã ç and serve them and aut funds O Nomos s ã the Government set out in the law on the execution ction or ç amental.	

(vi) Methodology of work

To perform the analysis and prepare its opinion the Committee has undertaken the following initiatives:

- a) Approval on July 4, 2016 the final draft of assessment calendar of PPL No. 41 / III (4th) who submitted to the President of the National Parliament and was approved by that after hearing the Tops of the Conference of Leaders;
- b) Technical analysis of the proposed law budget amendment, fiscal Books 1 "Budget Overview" and 3-A "Infrastructure Fund";
- c) Analysis of the Technical Note produced by PN Services;
- d) Joint Public Hearing of the Committee C and E with the Central Bank of Timor-Leste and the Advisory Board of the Petroleum Fund;
- e) Joint Public Hearing of the Committee C and E with the Minister of Planning and Strategic Investment, the Minister of Public Works, Transport and Communications and the Minister of Finance, representing the Council Infrastructure Fund Administration (CAFI), accompanied by the respective technical teams;

In public hearings that took place on 5 and 6 July in Maubara, besides the members of the relevant committees in the matter - Committee of Public Finance (Committee C) and Infrastructure (Committee E) - also attended by the members of the Bureaux of Committee A, D, F and G.

also attended these hearings, on behalf of the National Parliament, Your Excellencies the President of the National Parliament, the two Vice-Presidents and a second secretary, as well as Their Excellencies the Minister of Social Solidarity and the Secretary of State for Parliamentary Affairs .

Understanding the urgency at the conclusion of the legislative process in question and the need to overcome some of the procedural constraints, the scrutiny periods were substantially shortened by consensus of all political forces in parliament and subsequently by Resolution of the PN.

The Resolution No. 6/2016, approved by the PN Plenary on July 4, confers powers on the initial assessment phase generally, the Committee and for the preparation of sectoral opinion within four days from the date of admission and low of the bill, and the Committee C for reporting and opinion within seven days from the date of issue and lower the proposed law authorizing Members of other specialized standing committees to participate in organized public hearing the committees mentioned.

That same Resolution determined that the debate on the general could not exceed one day and the debate on the details in plenary and final overall vote two days.

On the afternoon of July 4, after the adoption of the abovementioned Resolution, they were summoned by letter to the joint hearings of Committee C and E, the three members of the Government members of the Board of Directors of Infraesturas Fund (CAFI), Minister of planning and Strategic Investment (who chairs the CAFI), Minister of Works Públicas Transport and Communications and the Ministra of Finance and also the Central Bank of Timor-Leste and the Advisory Board of the Petroleum Fund.

For reasons of logistics order, the Committee on Public Finance met daily at appropriate facilities for this purpose in Maubara between 5 and 9 July from 10.00 hours, according to the approved calendar, to consider the proposal of amending budget law, listen to the members of the Government responsible for the management of the Infrastructure Fund, fund that will operate all amendments to the law that approved the State Budget for 2016 and the entities responsible for the management and monitoring of the Petroleum Fund and, based on contributions received, produce its report and opinion on the draft law to be submitted to his Excellency the President of the National Parliament.

The documents used by the Committee C for the analysis of legislative initiative of the Government and production of this report and opinion, included the Draft Law No. 41 / III (4th) and respective Explanatory Memorandum, the budget books 1 - Budget Overview and 3a - Infrastructure Fund, the Factual Findings Report related to the estimated reduction in the estimated Sustainable income produced by the independent external auditor, budget execution tables of expenditure and receipts for all funds, delivered by Ms. Minister of Finance. and reported to July 1, 2016, a table summary of budget changes to be considered in the context of the bill, in each sub-program and Infrastructure Fund project, considered essential for the issuance of report and opinion and the subsequent parliamentary scrutiny and even the sectoral opinion adopted by the Infrastructure Committee.

The consultation with the Ministry of Budget Transparency Portal of fnance allowed to gather additional information relevant to the production of this report and opinion.

The Committee C also took into account the Report of the Infrastructure Special Funds (IF) and Of Human Capital Development (FDCH) of the first quarter 2016, the Government Performance Report for the first quarter of 2016 and the Budget Execution Report the 1st Quarter 2016.

II. MACRO-ECONOMIC CONTEXT FOR 2016

On pages 5 to 10 of the Book 1 - Budget Overview of the PPL No. 41 / III (4th), are distributed by two points, International 2.2.1 and 2.2.2-Economy - Home Economics, an analysis of the macroeconomic context which is expected to take place in the second half of 2016, this context will not fail to influence the implementation of the 2016 Amending OGE and be influenced by it.

It should be noted that the content of that document, Budget Paper No. 1, is not updated, not including any information on the reality of the current year and that was the information available to the Committee C used and set out below:

Global economic growth in 2015 remained slow, remaining at 3.1%, with many countries still recovering from the effects of financial crisis. Growth in emerging and developing economies markets fell for the fifth consecutive year, now standing at 4.0%. This was due to the reduction in international prices of raw materials and the slowdown of the Chinese economy. Changes in international prices of raw materials can have a very significant effect on the inflation rate and the standard of living in Timor-Leste, since a considerable part of the food and products consumed in the country is imported.

The fall in international oil average price dropped significantly from the second half of 2014 and in January 2015 the price per barrel had contracted almost 60% from the peak in June 2014 thus ended-a period of four years of oil price stable at around \$ 105 per barrel, and the price fell to \$ 37.28 at the end of 2015, a trend which now reversed slowly in the first months of 2016. These recent falls in oil prices result a combination of increased global supply and reduced global demand. At the time of adoption of this report and opinion, the price of *Brendt* barrel was being traded at 46.37 US dollars on international markets.

The overall appreciation of the US dollar against the currencies of trading partners of Timor-Leste began in early 2014 continued throughout the year 2015. The US dollar appreciated 9.7% against a weighted basket of currencies of major trading partners Timor-Leste in the 12 months to December 2015. This appreciation has reduced the price of imports, which reduced the pressure on domestic inflation and benefited Timorese consumers. However this appreciation also caused Timorese exports stay more expensive when placed in international markets, which affected the development of the sector of exports.

Regarding the evolution of key macroeconomic variables related to the national economy in recent years, in Timor-Leste, recorded a growth of non-oil GDP exceptionally high, registering an average growth rate of 10.5% between 2007 and 2012. These rates growth was driven by increases in government spending as a result of government policy in anticipation of expenses.

The report on the budgetary Book No. 1 also addresses the inflation problem in our country. It states that:

"Annual inflation in Timor-Leste was -0.6% in December 2015. In recent years, annual inflation has fluctuated considerably, reaching double digits between March 2011 and September 2013, and then fell rapidly to values lower than the target set for Timor-Leste 4% and 6%, and reached deflation in March 2015".

The low impact of inflation can be attributed to the prices of food, non-alcoholic beverages and transport, which fell as a result of the decline in international prices of raw materials and the US dollar appreciation against the currencies of major trading partners of Timor-Leste.

It is expected that inflation remains low during 2016 and ending the year again below the goal of the Government of 4% to 6%. The downward pressure in 2016 results mainly from a continued scenario of low international prices of raw materials.

III. STATE REVENUE AND EXPENDITURE 2016

A - The State Budget Law for 2016:

The Law No. 1/2016, of January 14 approved the State Budget for 2016, it contemplating an overall allocation of expenditure and revenue of 1,562,233,000 US dollars (hereinafter million).

The total budget approved for the Human Capital Development Fund was 34 million dollars.

The maximum total approved for financing with recourse to public debt was 107.003 million dollars.

Non - oil revenues estimated, including the autonomous services and funds were 171.4 million dollars.

Total revenues to be collected by autonomous funds and services was 8.6 million.

Thus, the fiscal deficit for 2016 was 1,390,833,000 dollars, funded 1.2838 billion from the Petroleum Fund, of which 544.8 million dollars corresponding to the Estimated Sustainable Income (ESI) and 739 million above the RSE, and 107.003 million dollars through the use of public money.

B - Proposed Amending State Budget Law for 2016:

PPL No. 41 / III (4th) - First Amendment to Law No. 1/2016 of 14 January, approving the State Budget for 2016 accepted by the Parliament on July 4, updates the allocation overall expenses and 2016 State Budget revenues to 1,952,938,000 dollars, increasing the fiscal deficit to 1,781,538,000 dollars, to be funded 1.6745 billion from the Petroleum Fund, of which 544,800,000 corresponding to CSR, 1,129,700,000 additional transfers up CSR and 107.003 million dollars through the use of public money.

The Draft Law (PPL) in amends the State Budget approved for 2016 (hereinafter OGE 2016) in the part relating to the tables in Annexes I, II and III, remaining Annex IV (Human Capital Development Fund) unchanged.

Annex I of the State Budget 2016 Act is amended in the part relating to the total funding of the costs of use of transfers from the Petroleum Fund, Annex II changes the overall allocation category Development Capital expenditure for a total of 827.125 million dollars and Annex III increases the total costs incurred by the Infrastructure Fund 784,473,000 dollars.

This draft law the Government has request the National Parliament to approve, for the year, an increase of 390.705 million dollars of capital allocations for development of Infrastructure Fund to finance infrastructure projects, with justification that this money is intended to

"finance vital projects that are moving forward at a pace getting better, better inspection and better awareness on the part of companies" and that "the original budget allocation for 2016 is not enough to cover all ongoing infrastructure projects by the end of the financial year. "

The explanatory memorandum accompanying the PPL said that "a considerable part of the proposed increase now comes from three projects, the Port of the Bay of Tibar, the Supply Base in Suai and Dili drainage, planned projects for several years now arrive the implementation phase and will therefore be required prepayments ".

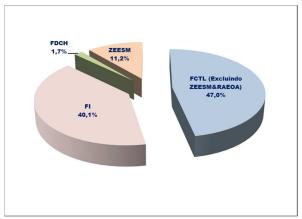
The Government proposes that the increase of 391 million is financed exclusively by additional transfers from the Petroleum Fund in the same amount.

It is recalled that the CSR that has been calculated for 2016 will remain unchanged until the end of this year (since it is only updated once every year) totaling 544.8 million dollars, and that the Budget 2016 already provided transfer from the Petroleum Fund to 1.2838 billion dollars to finance 82% of public expenditure, corresponding to 2.4 times the CSR. The increase of 391 million now provided by PPL OGE 2016 Amending assumes additional withdrawals from the Petroleum Fund to increase its weight to 3.1 times the CSR.

The total weight of expenditure shown in the Infrastructure Fund including loans in the 2016 state budget, will increase from 25% to 40% if the PPL will be approved by the PN.

The breakdown of expenditure weights from different sources will with the State Budget 2016 Amending, have the following configuration (IF, 40%; TLCF, 47%; HCDF, 1.7% and ZEESM, 11.2%):

Chart 1 - Weight of the various sources of aggregate spending in the Amending State Budget 2016



In a first analysis, the Committee "C" looked with concern the law proposed by the government which proposes an increase in budget expenditures in 2016, of 391 million dollars to be fully funded by the Petroleum Fund, for this option to contribute, together with other external factors such as the sharp and sustained reduction in the price of oil and the contraction of return on investments of the Fund to accelerate the exhaustion of accumulated wealth in the petroleum Fund.

But the concerns of the Committee C increased further by analyzing the projection of IF spending growth presented by the Government for 2017 and following years, the budget book 3-A, in the table below is reproduced:

Table 1 - IF budget summary for 2016 and following years

Nome de Programa e Projectos	Orcamento 2016 Final Aprovado	Orcamento 2016 depois de Transferencias e Virement \$'000	Despesas Estimativas Ate Dezembro 2016 \$'000	Orcamento Adicional ou Deficit para 2016 \$'000	Orcamento Rectificativo 2016 \$'000	Orcamento 2017 \$'000	Orcamento 2018 \$'000	Orcamento 2019 \$'000	Orcamento 2020 \$'000
Total Programa (Incluindo Emprestimos)	392,960	392,960	676,663	390,705	783,665	773,190	1,430,339	1,118,781	600,273
Total Programa (Excluindo Emprestimos)	285,957	285,957	676,663	390,705	676,663	440,252	1,008,745	853,150	483,056

Indeed, it stands out in the above table that the budget for IF including loans will increase this year to 393 million approximately to 784 million dollars if OGE 2016 Amending will be approved by the PN, when the estimated Fund expenses indicated by itself government in the same table points to a forecast of expenditure by the end of 2016 of 677 million, not 784 million, a difference to less than 107 million.

Also in this same table, following the behavior of IF financing needs projected for 2017 and following years, it appears that they abrandarão but very moderately in 2017, from 784 million dollars in 2016 to 773 million in 2017 to coming back again to grow in 2018 to 1,430 million, stabilizing at 1,119 million dollars in 2019. It is a scenario that the Committee for C appears to be unsustainable in view of the persistent high scenario non-oil deficit and shortage of domestic non-oil revenues stubbornly remain unchanged throughout 2016, despite intense reforms undertaken by the Executive in recent years to increase the capacity of public institutions for the capture and storage of non-oil, tax and non-tax revenues.

Since 2011, the year that the overall allocation of the State Budget exceeded for the first time the 1,000 million, this Amending the State Budget will be the largest ever budget of the country, as can be inferred from the following table:

Table 2 Evolution of appropriations of the State Budget and the IF since 2011 until 2016, before OGE 216 Amending

Unit: USD

Despesas Públicas	2011	2012	2013	2014	2015	2016
·						
FI (incluindo Imprestimo	\$599,306,000,00	\$875,133,274,00	\$604,377,063,00	\$1 460 000 743,00	\$368,551,100,00	\$393,767,844,00
OGE Global	\$1,306,017,539,00	\$1.806.449.826,00	\$1.647.519.204,00	\$1.500.000.254.00	\$1.570.001.757,00	\$1.562.232.046,000,00

Source: Budget Transparency Portal

How to assess the real needs of additional funding from the IF of more \$ 391 million, noting the first three columns in the following table, there seems to be a little consistent pattern of increases and reductions in appropriations of 22 who came running infrastructure programs to date, as exemplified by the case of Program 10 - "Millennium Development Goal" which had a budget of 4.8 million dollars earlier this year to reduce a few months later to 2.8 million via internal transfers (virement) and now return to need further reinforcement of 5.9 million.

A similar situation is happening in many other IF programs, as can be seen in Table 3 extracted from the 3-A budget book:

Table 3: IF budget summary for 2016 by program

		Orçamento 2016						
No.	Nome de Programa e Projectos	Orçamento 2016 Final Aprovado	Orçamento 2016 depois de Transferencias e Virements	Despesas Estimativas Ate Dezembro 2016	Orçamento adicional ou Déficit para 2016	Orçamento Retificativo 2016		
		\$'000	\$'000	\$'000	\$'000	\$'000		
	Total Programa (Incluindo Emprestimos)	392,960	392,960	676,663	(390,705)	783,665		
	Total Programa (Excluindo Emprestimos)	285,957	285,957	676,663	(390,705)	676,663		
1	Programa de Agricultura e Pescas	2,035	2,035	2,483	(448)	2,483		
2	Programa de Água e Saneamento	12,486	7,486	15,825	(8,339)	15,825		
3	Programa Desenvolvimento Urbano e Rural	12,182	5,604	5,930	(326)	5,930		
4	Programa de Edificios Publicos	3,585	3,585	3,871	(286)	3,871		
5	Programa de Sistema Financeiro e Suportas Infrastruturas	19,097	27,077	26,802	274	26,802		
6	Programa do Sector Juventude e Desporto	3,414	3,414	5,315	(1,901)	5,315		
7	Programa do Sector Educação	585	663	893	(230)	893		
8	Programa de Electricidade	6,300	11,300	41,035	(29,735)	41,035		
9	Programa Informatica	1,600	1,600	1,828	(228)	1,828		
10	Objectivo Desenvolvimento Milenio	4,800	2,800	8,700	(5,900)	8,700		
11	Programa do Sector Saude	1,701	1,701	1,551	150	1,551		
12	Programa de Defesa e Seguranca	2,808	2,808	3,581	(772)	3,581		
13	Programa de Solidaridade Social	-	-					
14	Programa Desenvolvimento Tasi Mane	56,634	64,689	183,876	(119,188)	183,876		
15	Programa de Estradas	104,225	96,225	208,016	(111,791)	208,016		
16	Programa de Mantenção e Rehabilitacao da Infraestruturas	16,000	16,000	4,866	11,134	4,866		
17	Programa de Pontes	6,485	5,985	2,058	3,927	2,058		
18	Programa de Aeroportos	15,220	23,186	24,469	(1,284)	24,469		
19	Programa de Portos	10,600	3,600	131,282	(127,682)	131,282		
20	Programa de Transportes	-	-	-	-	-		
21	Programa do Sector Turismo	200	200	1,135	(935)	1,135		
22	Preparação de Desenhos e Supervisao-Novos Projectos	6,000	6,000	3,147	2,853	3,147		
23	Programa de Empréstimos	107,003	107,003			107,003		

Source: Book 3A Amending Budget 2016 Table 6, p. 36

As for the body of the Amending State Budget Law Proposal 2016, proposed amendments to Article 4 - "authorized limit for financing the state budget" and 7 - "Additional rules for budget implementation" of the State Budget Law 2016.

(i) Revenue

Non-oil domestic revenues which should finance public expenditure in 2016, including own revenues from autonomous funds and services, will remain unchanged with the approval of the Amending State Budget 2016, at \$171.4 million. It is important that the results begin to emerge.

The balances of the IF for 2015 after an audit revealed the existence of \$46.8 million (Ministry of Finance data), and this amount could be used to fund part of the additional costs proposed in the Amending OGE. Mrs. Minister of Finance provided the Committee C at the hearing on July 6, a set of illustrative tables of the implementation of infrastructure programs until July 1, 2016. Perhaps slip of the pen, the table indicates that the "revised budget after audit" is

\$440.561 instead of the \$394 million that were approved by the State budget Law for this year, adding the government to the initial allocation of 2016, the balance audited 2015.

Committee C reminds the Government that the budget available in IF for the current year is just that the PN approved with the law of the State Budget 2016 for the remainder of 2015 can only be built and used is included in Annex I to law of the state budget, which has not happened yet. The Committee suggests the PN through a proposed budget amendment to be presented in place of examination in specialty PPL Amending the State Budget, the balance belonging to the IF and not the TLCF is finally built, thus less needs additional funding from the state budget, from the Petroleum Fund. Could this mean that the TLCF also financed to date with the balance of 2015 without the necessary authorization from the PN.

In the absence of publication of the Timor-Leste Central Bank report on the performance of the Petroleum Fund (PF) in the second quarter 2016, at the hearing on 5 July the Committee C was found at the central bank that until now have been transferred from FP to the state budget 420 million.

(ii) Expenses

The overall estimated expenditure approved by the PN for the year 2016 was 1.562,233 million.

The implementation of TLCF measured on the basis of payments made and the registered bonds reached 56.5% in the same period.

The implementation of IF until July 1, 2016, including payments and obligations stood at 44.8%, not pointing to additional financing needs until the end of the year.

The HCDF execution level was well below the expected level six months after the beginning of the year, making the prospect of an unexpected budget gap that may, if necessary, come to be used to strengthen the IF, safeguarding that are duly met the ongoing needs.

As for the essence of the budget proposal relates to the need for increased spending on infrastructure investments, the level of capital expenditures (capital development), the following main changes stressing (by decreasing its value order) also observed Committee E:

- a) Investment contract for public-private partnership arrangements for the new **Port of Tibar** (+\$127.6 million USD);
- b) **Tasi Mane program**, with the start of new contracted projects and works, including the contract for the Logistics Platform of Suai (*Supply Base*) and the new highway from Suai Beaço (first phase), amounting to \$119.1 million;
- c) Roads programs for the payment of costs of activities already undertaken and new contracts (\$111.8 million), including, in particular, the increase in spending on roads to finance the resulting payment of expenses so-called "Emergency Works 2013" for the designated packages A and B (+\$20.12 million), as well as 38 other current contracts included in the roads program;
- d) **94 projects and various works regularizing and pay** (+\$19.288 million), which is a new activity, not foreseen in the initial budget);

- e) **Electricity projects** to finance the payment of debts of work carried out on packages A and B (+\$29.735 million);
- f) Development of **Dili Drainage** (+\$8.3 million).
- g) Achieving the **Millennium Development Goals**, with an increase of funds to resolve existing charges (+\$5.9 million).

The presentation of this draft amending budget reflects, to a large extent, delays in hiring and development of some of the major projects and public works (in particular, the contract for the *Supply Base* and Freeway south coast), for reasons arising from problems termination of contracts and obtaining prior visa to the Court of Appeal / Chamber of Accounts, which started execution was scheduled for the last quarter of 2015. However, it is not fully guarantee that these contracts have the desired effect before the end of year depending on the delay of approval of these previous visa.

Similarly, it is not yet known the contract or the result of the process of "financial close" on the Public-Private Partnership (PPP) of the Port of Tibar.

Still on the contract Port of Tibar, it is necessary to take into account the need to contract subject to prior control.

The total amount expected to increase in these expenses is more than 421 million, partially offset by the reduction in appropriations of some activities of the Infrastructure Fund, among which we highlight the following:

- a) Program **maintenance and rehabilitation** of the infrastructure (-\$11.1 million);
- b) Program bridges (-\$3.9 million);
- c) Preparation of **drawings and supervision ã the** new projects and works (-\$2.8 million).

Reductions can be found in appropriations for maintenance activities and rehabilitation, bridges and the development of new studies, design and supervision of public works - which contradicts the recommendations in the discussion and approval of the 2016 Budget, the final report and the opinion of National Parliament and the international partners, which have reinforced the idea that it is necessary to increase investment in the operation, maintenance and rehabilitation, as well as the need to improve the quality of planning processes, preparation of studies and projects and supervision public works;

With regard to planning and design, there is no complete information about the new studies and projects related to public works and equipment, recognizing that the already reduced funds for these activities become now even more reduced. Expetável would, at least as regards the supervision of public works, there was an increase in charges to the supervision of such activities, to promote their quality, and also the economy and efficiency of public spending.

The amounts provided for in the 2016 budget, down from 5% to 10% would be expected, now become even lower - when the increase in investment values was expected to happen exactly the opposite. While recognizing that part of the spending increase has to do with needs and contractual requirements (eg PPP contract Port of Tibar) or even with work already performed (eg payment of works and 2013 emergency activities), would We expect that in other cases there was an increase in charges related to its management, implementation and monitoring.

One issue to equate in future financial years will be the breakdown of public investment programs, to include annual and multi-year forecasts, as well as the identification of the stages of evolution of the life cycle of projects and works.

With regard to the charges of the "Emergency Programme 2013", the Government has chosen the 2016 budget by signing a seemingly small amount (less than 10 million USD), which already at that time seemed insufficient to solve the problems and responsibilities State, opting to include this Amending Budget to solve the problem, but without clarifying whether this measure are resolved from the state, all existing situations or are still under consideration other situations claimed by private companies.

As for the diploma proposal on the "First Amendment to Law § 1/2016 of 14 January, approving the general State budget for 2016", the Government intends to approve:

- a) The amendment of Annexes to paragraph 1/2016 Law of 14 January, on the Petroleum Fund (Annex I) and the Infrastructure Fund (Annexes II and III), and Articles 4 and 7 of Law Budget for 2016;
- b) The authorization of a new limit for obtaining funding transfers from the Petroleum Fund up to a total amount of 1674.5 million dollars in 2016;
- c) Authorisation to proceed deposits escrow in accordance with the regulations;
- d) In relation to contracts suspended effective, the authorization to suspend the respective performance guarantee up are fulfilled their effectiveness conditions;
- e) The rules of budgetary management of autonomous funds and services are defined in law on budget execution.

IV. CONCLUSIONS AND RECOMMENDATIONS

(i) Conclusions

In light of the analysis, the Committee C presents the following conclusions:

- a) The Draft Law No. 41 / III (4th) introducing the first amendment to Law No. 1/2016 of 14 January State Budget for 2016 is the result of additional needs to finance the Infrastructure Fund (IF) felt by the Government.
- b) The change in the overall allocation of the 2016 State Budget proposed by the Government involves only the category of IF development capital expenditure and states that the financing of this change is supported by the Petroleum Fund in its entirety. The bill makes addition the overall volume of expenditure and revenue for the financial year at \$391 million.
- c) The increase in budget funding amount realized in recent years through the Petroleum Fund increases the country's fiscal dependence from 88.23% to 90.72% of budget revenues.
- d) The reasons given by the VI Government for growth in the volume of expenditure were insufficient appropriations to cover all infrastructure projects currently underway by the end of this financial year, given the acceleration of basic infrastructure projects, which it considers a necessary condition for stimulation of economic benefits to the

country and to contribute to economic diversification, in order for the state accounts this year, since next year will be elections, it is expected that the budget will be more moderate.

- e) Not leaving to do the repairs that the Government considers to be necessary, Committee C still maintains that, in principle, the State always acts in good faith and, as such, honors all its commitments. Being concerned, among other additional expenses, the payment of debts to third parties in previous years, it is essential to be paid as soon as possible in order to minimize the adverse effects of lack of liquidity in companies that are improperly called to finance State expenditures. However this was a situation that the Committee C envisioned several years ago and which was informed to the Executive on several occasions.
- f) It is observed that the proposed Law Amending the State Budget for 2016 in relation to debt only includes the payment of non-financial debts incurred by the State in the context of the IF development capital expenditures, when it is certain that in the TLCF there is still a significant volume of outstanding current non-financial debt, assumed with the acquisition of goods and services, and the Committee not C yet been properly informed about the time when they too will be met.
- g) If it is legitimate for the debts incurred by the state in the construction of basic infrastructure should be paid to suppliers, is also expected to occur accountability of public office holders that the contracted and not liquidated in good time, by the Committee C believes that the budget appropriations allocated to line ministries responsible for the accumulation of previous years' debts, should also contribute to minimize the impact of the budget increase necessary in the Petroleum Fund, abdicating to the end of this year, a percentage of the respective appropriations authorized under CFTL to acquire goods and services, in favor of the Infrastructure Fund.
- h) In the Draft Law No. 41 / III (4th), the volume of oil revenues needed to finance the Amending State Budget 2016 was adjusted upwards by the Executive, which reduces the wealth of the Petroleum Fund, which will have profound impacts on ESI in the next few years, as shown by the recalculation of ESI presented by the independent external auditors for the years 2017 and following.
- i) Unfortunately, it is confirmed the government's intention to come to make further withdrawals from the Petroleum Fund of \$391 million, increasing the 2016 State Budget needs to levels that exceed by more than three times the given ESI to 2016.
- j) The financing of the state budget from external concessional loans does not change with the approval of Amending OGE, remaining at 107 million dollars.
- k) In PPL No. 41 / III (4th), the overall allocation of the expense of the state budget, which includes the costs incurred in the Consolidated Fund of Timor-Leste (TLCF), the Infrastructure Fund (IF) and Fund Human Capital development (FDCH) will increase from \$1,562,230,000 to \$1,952,938,000. Thus the proposed budget changes increase the budget level of the Infrastructure Fund to levels never seen before.
- The HCDF appropriations remain unchanged, keeping intact the funds allocated to registered programs and projects. Given its low budget execution capacity by the end

- of the 1st half of 2016, part of their funding could be redirected if the PN so wishes, to bridge part of the additional needs of the IF.
- m) Committee C had not yet obtained from the Minister of Finance, as of the date of adoption of this report and opinion, information on the balances carried forward from 2015 in TLCF, IF and HCDF determined after the audit. However this information is essential for the recalculation of additional financing needs from the Petroleum Fund.

(ii) Recommendations

Committee C accompanies and supports the recommendations of the Infrastructure Committee (Committee E) and additionally addresses the following recommendations to Parliament (PN) and the Government:

A - Recommendations to the Government:

- 1. To provide the PN, desirably to the beginning of the debate on the details of PPL under consideration, written explanations on the balances carried forward in the accounts of TLCF, IF and HCDF to December 31, 2015, after auditing.
- 2. Make available to the PN by the end of the debate and approval in generality of the PPL, a list with the complete information on the debts incurred by the state without contract and the identification of those responsible for them, as promised by the Executive but so far unrealized.
- 3. That pass the future to honor the discipline and budgetary rigor, timely settling their debts to state suppliers.
- 4. To ascertain and rectify urgently next year, the amount of non-financial debts in the name of the state in the TLCF and HCDF in previous years, and which have not yet been paid.
- 5. To provide the PN, ideally before the beginning of the discussion on the details of PPL, written, concrete and detailed information on the new feasibility studies Port of Tibar and Tasi Mane Project on the South Coast containing, inter alia, data on transit ships and containers expected over the life of the project, the estimated return for the state as a result of public investment in these two mega projects, as indeed determines the Law of Budget and Financial Management because Members need to be properly informed and understand fully the situation.
- 6. That during discussion in general in plenary adequately clarify the concepts and scope of the new paragraphs 8 and 9 of Article 7 of PPL.

B - Recommendations to Parliament:

- 7. To approve an increase in the budget for 2016 up to \$284 million, not \$391 million, as it was considered that the reinforcement in question is necessary to achieve the strategic objectives of key Government to national development and that meets the needs highlighted by the Government in Table 6, p. 36 of Book 3-A and replicated by the Committee C on page 13 of this report and opinion.
- 8. That during the plenary debate on the details approve a proposed amendment to the PPL ensuring that part of the supplementary budget increase for 2016 is supported by

the existing 2015 balances in the accounts of the three funds after audit, and also by the available allocation in allocation of HCDF to 2016, this background that showed very low levels of budget execution as of July 1, 2016.

- 9. The PN and the Government articulate each other the establishment of an independent evaluation committee that includes members of the government and members of the Committee and the PN, using if necessary the specialized technical support to carry out the evaluation of the works costs and verification of works on the ground, before proceeding to the payment of debts now cleared by the Executive.
- 10. That during the debate on the details of PPL re-evaluate the proposal by reducing Government Programme 16 "Rehabilitation and Maintenance Infrastructure Program" of the Infrastructure Fund of \$16 million to \$4.9 million, the reductions operated contrary to the recommendations made in the discussion and approval of the State Budget for 2016, the Report and Opinion of PN and international partners, including the Asian Development Bank (ADB) and the European Union (EU), which have reinforced the idea that increased the need for investment in operation and maintenance and in rehabilitation of infrastructure.
- 11. That in PPL plenary discussion on the details, defend an increase, or at least approve the maintenance of the original allocation for Programs 11 "Health Sector Program" in the amount of \$1.7 million, which the government now aims to reduce to \$1.55 million.

V. OPINION

The Public Finance Committee is of the opinion that the proposed amending bill to Law No. 1/2016 of 14 January, approving the State Budget for 2016, generally complies with the principles of budgetary management, in particular the balanced budget and meets the constitutional, legal and regulatory requirements and is therefore in a position to ascend to the plenary for discussion and voting in general the constitutional and procedural terms in effect, reserving the parliamentary benches its position to the debate.

VI. ADOPTION OF THE REPORT AND OPINION

The Report and Opinion of Public Finance Committee on Law No. 41/2016 to PPL, January 14, was discussed and voted on Committee on __July 2016 and was approved unanimously, with 11 votes in favor.

An integral part of this report and opinion, the opinion submitted by the Advisory Board of the Petroleum Fund, an explanatory summary table of the additional financing needs of the IF provided by the Minister of Planning and Strategic Investment at the hearing on 6 July 2016 and sectoral look produced by the Committee and on the legislative initiative under consideration.

The Chairman of the Public Finance Committee (Virgilio Maria Dias Marcal)

The Deputy Rapporteur (Maria Angelica Rangel da Cruz dos Reis)